

# Ofgem Consultation

Reviewing the benefits of the Low Carbon Networks Fund and the governance of the Network Innovation Competition and the Network Innovation Allowance

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**SGN**

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## Executive summary

SGN welcome the opportunity to respond to this consultation. We agree that reviewing the benefits of the Low Carbon Networks Fund (LCNF) and the governance of the Network Innovation Competition (NIC) and the Network Innovation Allowance (NIA) funding mechanisms must be assessed rigorously to ensure they achieve the objectives of the mechanism. Therefore it is important that Ofgem considers the views and feedback from network licensees based on their experiences from dealing with the mechanisms and considers any issues or recommendations on how they can be improved.

We have a number of recommendations, but the key point we would like to stress is that the NIA mechanism is starting to generate innovative solutions, which are emerging during the current price controls, and may have benefits that can't be predicted today. Therefore it is important that assessment is sufficiently flexible to take account of as yet unforeseen benefits. Relevant knowledge dissemination is proving to be the most valuable way for the Networks Licensees to share benefits.

We believe that the criteria for the NIC funding mechanism is fit for purpose, however we would recommend that Ofgem considers introducing a roll over mechanism which could potentially help boost participation year on year. In addition, we feel that consideration should be given to downstream renewables even though there is no benefit to the GB gas consumer, the gas networks could support some of the challenges faced by the electricity networks.

## Question 1: Should we change the NIC and NIA criteria? If so how and why?

The NIA criteria set out in the governance document is accessible and informative. We believe that it supports both Network Licensees and project partners and incentivises them to test new technology and explore commercial arrangements. We fully understand the provisions of the governance document and are starting to see a momentum shift between gas Networks Licensees regarding collaboration and knowledge dissemination. In 2014/15 around one-third of our projects were delivered in collaborative partnerships with other gas Network Licensees, although it has been through knowledge dissemination where the most significant benefits have been shared to date. This is testament to the NIA criteria that has been set out. However, more work is required between gas and electric Network Licensees to increase cross sector collaboration and relevant knowledge dissemination.

To date all of our projects funded through NIA have had a potential financial benefit. The Network Licensees have only recently finalised the Project benefits guide. As a result, it is too early to determine whether this aspect of the NIA criteria is effective or not. Therefore, we do not expect a change to be made to this process.

In reference to the NIA project reporting, specifically the project closedown reports this is one area we feel could be improved. We do not feel that the current templates produced allow Network Licensees the platform to share enough information and learning in order for another Network Licensee to review and implement the innovative solution. To address this, Network Licensees have been working to develop a more detailed reporting process which will allow comprehensive technical closure reports to be shared. This approach appears to be favourable and has been welcomed by the gas Network Licensees.

One area that could be improved is the NIA rollover of funds. Due to the stop start nature of the funding mechanism, coupled with the uncertainty of innovation projects this puts a constraint on Networks Licensees, specifically around NIA portfolio forecasting and therefore means finances are conservative.

We believe that the majority of the NIA criteria does not need changing, similarly the NIC criteria is robust and is fit for purpose. We welcomed the improvements to last year's bid process, through the introduction of fewer but more prescriptive bi-lateral meetings and would like this process to continue on.

## **Question 2: Should we give more of an indication of where we consider innovation is required or is that inappropriate?**

At the moment projects are limited in where there is a potential direct benefit to Network Licensees. This could be widened to include additional projects on behalf of the GB gas consumer, but in these instances a distribution network contribution may be inappropriate.

In addition, focussing the areas of innovation could stimulate high impact/cost areas of the GB gas industry however, this assumes that all Network Licensees have the same technical challenges.

## **Question 3: Should the focus of the NIC and NIA be broader and cover the broader energy system?**

Currently, the focus of the NIC and NIA funding mechanisms is fit for purpose and there is still a great opportunity to deliver significant benefits and we need to be careful that we do not take the focus away from these key areas. In the later years of RIIO-GD1 we think it is inevitable that the scope will need to be broadened in order to stimulate energy industry crossover. Both funding mechanisms are a good platform to start bridging the gap of the disparate areas of the GB energy sector, although at the moment it is limited to areas where licensees have experience of operating within.

However, we should certainly consider changing the scope to accommodate downstream renewables even though there is no benefit to the GB gas consumer. Decentralisation of the electricity grid/power generation could be supported by the gas networks.

## **Question 4: Can we improve the process for deciding on which projects to approve and if so how?**

The current process is robust.

## **Question 5: How can we improve participation in the NIC?**

The NIC is an intense and rigorous process. It requires significant resource and technical expertise from a large variety of business functions within a Network Licensee to deliver a successful bid. Notwithstanding that there is also a high risk of failure due to the competitive nature of the process and funds available. As a result, Network Licensees may not have the capacity to deliver NIC bids year on year. Particularly when a licensee has a successful bid in the previous year, as it is likely to focus its attention and resource towards project delivery. Therefore, reasoning tends to be cyclical.

As we outlined in the executive summary, and similar to what was suggested in our response to Question 1, regarding the NIA rollover of funds it may be prudent to apply a similar approach to the NIC mechanism.

Furthermore, GDNs have a smaller pot than electricity networks, therefore a smaller pot limits the size of project which we would consider.

We do not feel that it is appropriate for the NIC funding mechanism to be opened up to others out with the Network licensees. In our experience projects done direct with SMEs, Universities and other project partners have had a higher conversion rate than those that have been undertaken by an Innovation house or third party working on behalf of the networks.

## **Question 6: Please comment on your experiences if you have worked with licensees when implementing NIC and NIA projects or when transferring innovation into business as usual.**

As briefly stated in Question 1, collaboration and knowledge dissemination has become a critical factor in the success of all innovation projects to date. The gas Network Licensees have built a strong relationship since the introduction of NIA and NIC and benefits are being realised. As set out in the governance document, knowledge dissemination is a key focus for the industry as a whole, and we are actively working alongside the other Network Licensees to ensure the maximum amount of relevant information is shared. We feel that this target has been met and exceeded with knowledge dissemination improving and becoming more effective. In most cases knowledge dissemination has become more beneficial than collaboration. In 2014/15 we were proud to become the first Network Licensee to complete and implement an NIA project, Osprey Pressure Validator, from which the learning was shared and the technology adopted by the other gas distribution networks (GDNs). This was achieved by firstly giving a project presentation to all the Network Licensees, as well as sharing the final technical reports, training materials and videos with them. This allowed the Network Licensees to go and implement the innovative solution into their respective networks.

Although we have yet to implement an NIA or NIC project that another Network Licensees has delivered, we are beginning to receive project updates on request and supporting documentation that can be reviewed and shared internally amongst departments. This has been on the back of work we done to review every single NIA project registered on the Smarter Networks Portal and determine its relevance and value to our business.

One of the key drivers in the success highlighted above has been the improvements that have been made to the Gas Innovation Governance Group (GIGG). This is a monthly meeting that gas Network Licensees attend to discuss current and future projects together and sharing the benefits and lessons learnt to help us achieve common goals. SGN currently chair this meeting and have introduced several new initiatives, such as a quarterly newsletter, live site demonstrations and project presentations. Furthermore, last year we decided to give each Network Licensee the opportunity to host a GIGG meeting, which allowed them to set out the agenda for the day and present and demonstrate their most valuable project learning.

The gas Network Licensees have put a lot of hard work in to establish strong working relationships between all the innovation teams. This has helped to ensure knowledge and learning is effectively shared and ultimately those projects that are of value to be implemented are taken through the correct process within each Network.

## **Question 7: Are there any other issues we and the independent evaluator should consider as part of the review?**

Whilst we understand the need, the way the change request / consultation period process is managed could be improved. Currently projects are 'frozen' for up to three months whilst Ofgem review and consider their response. Whilst we understand the need for a detailed review of some of the more complex issues before Ofgem issue a response, putting a project on hold for prolonged periods has the potential to cause cash flow, resource and scheduling issues for project partners. The ability to propose how the project can progress in some form to maintain momentum would be useful to avoid any problems growing.

Similarly, with regards to Data Protection and Customer Engagement Plans, as per the NIA governance document it states an expected minimum 2 month review however, this uncertainty makes projects very

difficult to plan and could potentially have cash flow impacts on project partners. A guaranteed date of response would greatly benefit either funding mechanisms, or agreement of a template rather than on a project by project basis.

## **Question 8: To what extent do you consider that the LCN Fund has succeeded?**

N/A

## **Question 9: To what extent do we need to continue incentivising innovation by DNOs?**

There has been a significant shift in the perception of innovation in recent years amongst the Network Licensees. Innovation is now starting to become embedded in our business and a competent sector has emerged. We alone have projects with over 100 partners, as recently as 2012 this was in the region of <10. However, there is still a long way to go and a danger that if the funding was ceased too early this could stifle collaboration and more importantly knowledge dissemination amongst the Network Licensees.

Not all Network Licensees are as advanced in the integration process as us. Therefore, we would suggest funding continues post 2021 in order to ensure that innovation becomes deep rooted in the Networks.

## **Question 10: Are there any other issues we need to consider as part of the LCN Fund benefits review?**

N/A